

# GENERAL FUND REVENUE REPORT



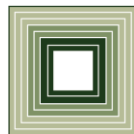
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**FISCAL RESEARCH DIVISION**

A Staff Agency of the North Carolina General Assembly

# Presentation Outline

- Update of Revenue Collections through January
- Key Revenue Trends
- Potential Risks to Revenue Forecast

# General Fund Revenue: July through January

- General Fund revenue was \$145 million above target through January
- 1.3% above an \$11.1 billion target
- Reminder: Target surplus is not the same as revenue surplus

# **General Fund Revenue:**

## **July through January**

- Last three months collections have been essentially on target
- January was \$15 million below a \$1.6 billion target
- The shortfall for January was driven mostly by uneven collections in Non-Tax revenues such as judicial fees

# Key Revenue Collections

- Tax collections continue to reflect the underlying improvements in the economy

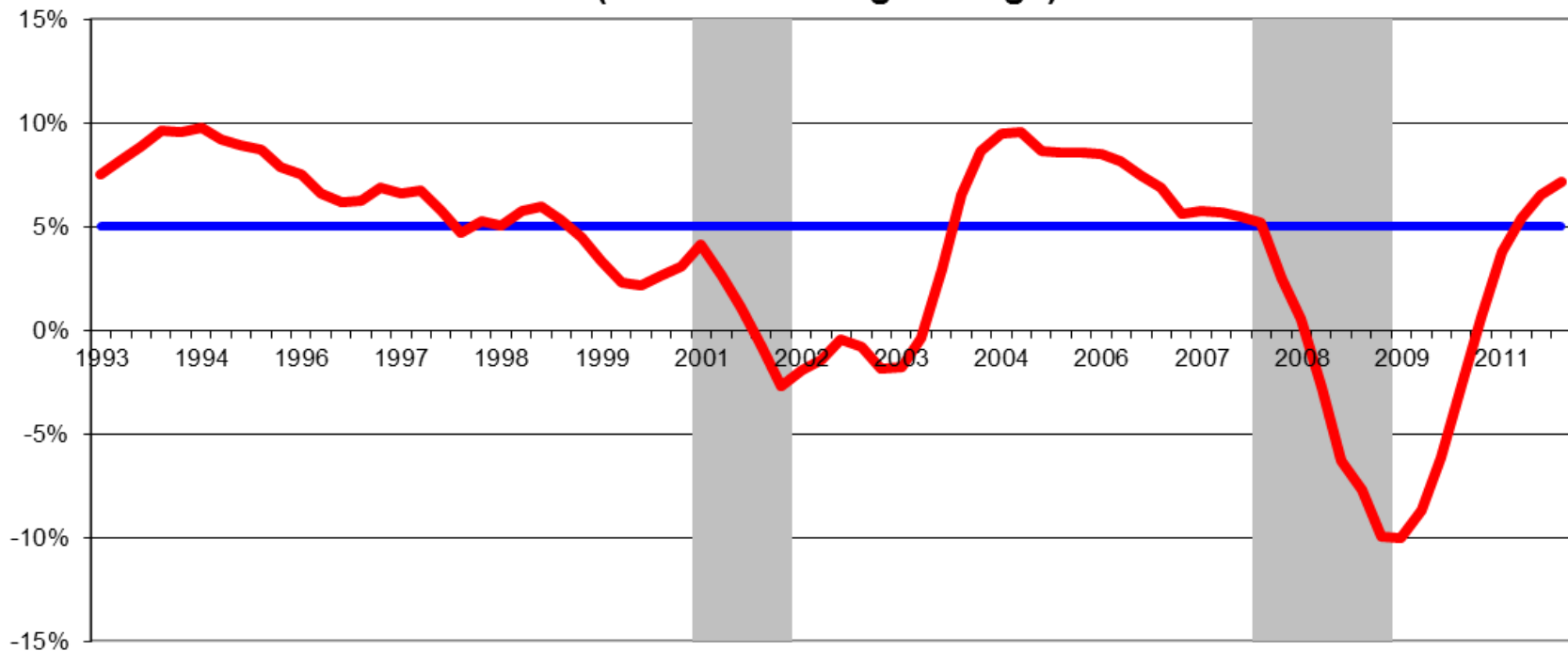
## Sales Tax Collections

- Net collections are slightly below target
  - Down less than 1.0%
- Collections need to maintain current pace of growth to meet end-of-year targets (6% baseline)
  - Recent increase in gas prices may cut into retail sales

# Tracking Economy-Based Collections

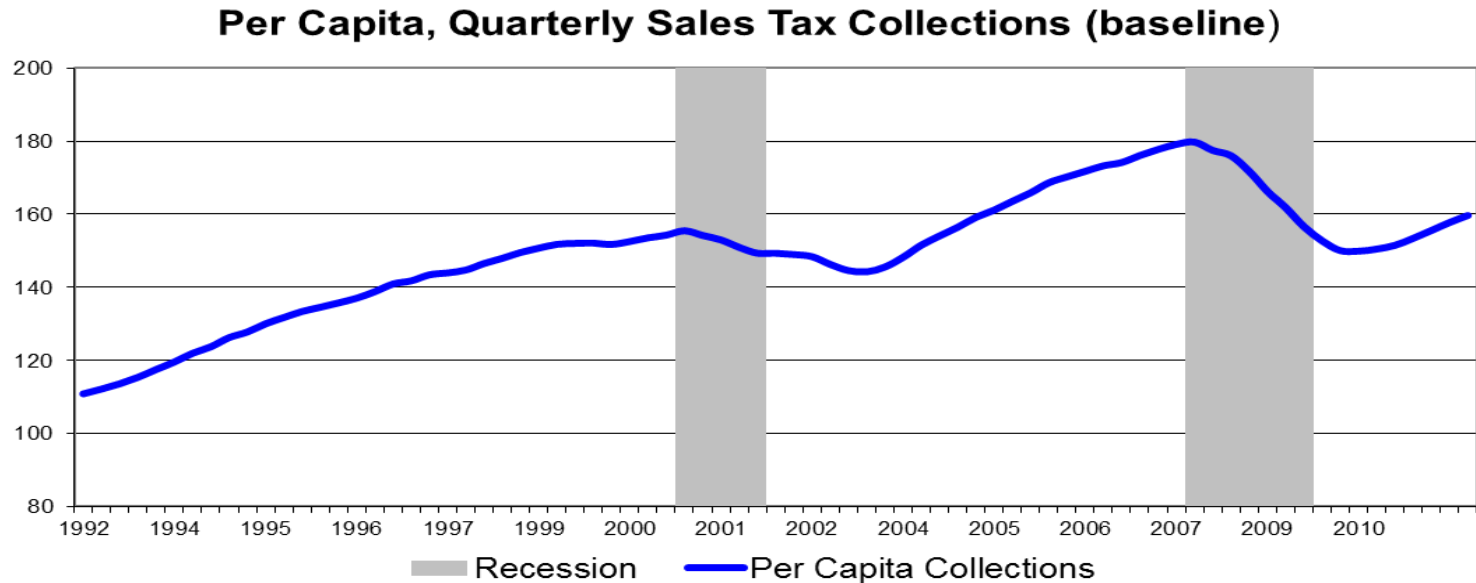
- If food and gas prices continue to increase, sales tax collections will suffer; neither gas or grocery store food are in the State's sales tax base.

**Quarterly Baseline Sales Tax Collections**  
(4 Month Moving Average)



# Tracking Economy-Based Collections

- Revenue targets are fairly aggressive the rest of the year with 6% growth. Historically, sales receipts grow at just above 5%. Given that we are 7.2% below per capita collections from 5-years ago, the targets are less aggressive than they appear.



# Key Revenue Collections

## Personal Income Taxes

- Withholding tax collections are up 2.4%
- Total personal income tax collections are up 3.9%
  - This time last year, they were up by 1.2%
  - Personal income tax collections are the main reason for the target surplus
- Estimated payments on the 2011 tax year have made it hard to gauge the April 15th outcome
  - Another April Surprise?



# Key Revenue Collections

## Business Taxes - Corporate Income and Franchise Tax

- 3.1% above target through January
- Corporate collections are above target by 4.2%
  - Volatile April final payments will be the key to meeting forecast
- Franchise Taxes are running 1.0% above target

# Revenue: Risks to the Forecast

Since the revenue forecast was produced in March of last year, the National and State's economic forecasts for this fiscal year and next have been downgraded.

<u>FY 2012-13 NC Forecast</u>	<u>March 2011</u>	<u>March 2012</u>
Gross State Product	6.3%	5.8%
Wage & Salary Income	7.1%	5.7%
Employment	2.5%	1.2%
Unemployment Rate	8.9%	9.9%
Retail Sales	4.8%	4.7%

# Revenue: Risks to the Forecast

- **We have been here before!**
- The economy appears to be gaining a solid footing
- Potential trouble is looming, yet again
  - Rising prices in commodities,
  - Slow employment growth, and
  - Potential recessions in Europe and Japan
  - Housing market still at the bottom

# Conclusions

- Last several months revenues have been on target
- April surprise still ahead
  - 2011 Final Payments and Refunds
  - 2012 Estimate Payments
- Another round of economic shocks could derail the recovery, yet again